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ECONOMIC TRENDS
1991 MID YEAR REVIEW

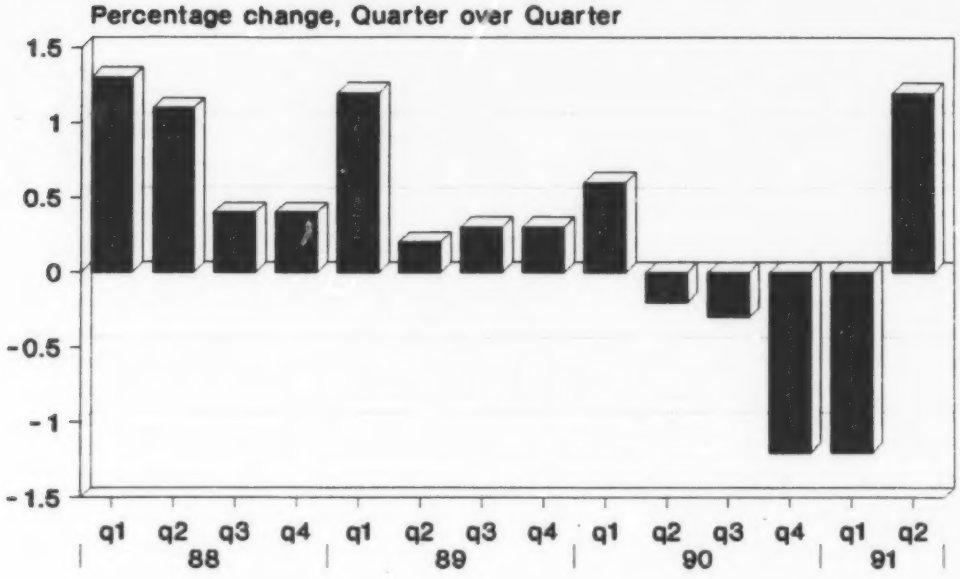
This issue of Economic Trends provides a general overview of the economic situation in Canada and Prince Edward Island in the first half of 1991. The reader should bear in mind that this information is subject to revision, though it does provide sufficient data to gain general insights into the economy.

1. National Outlook

The Canadian economy, after four consecutive quarters of contraction in real Gross Domestic Product, increased by 4.9 per cent on an annualized basis in the second quarter of 1991. This marks the end of the recession which had deepened significantly in the last quarter of 1990 and the first quarter of 1991 as can be seen in Diagram 1. Diagram 1 shows the quarter over quarter rate of growth in Canadian Gross Domestic Product in constant dollars over the period 1988 to 1991. In spite of the results from the second quarter of 1991, the overall level of production half way through 1991 was still 1.5 per cent below that of the 1990 mid point. On a year over year basis, in the first half of 1991 all expenditure components of Gross Domestic Product were below the levels for the corresponding period in 1990 except government expenditures. Business investment in fixed capital was below by 10.0 per cent in the first six months of 1991 and personal expenditure on goods and services, which is the largest component of Gross Domestic Product, was down by 1.4 per cent.

Diagram 1

Real Gross Domestic Product
Canada, 1988-1991



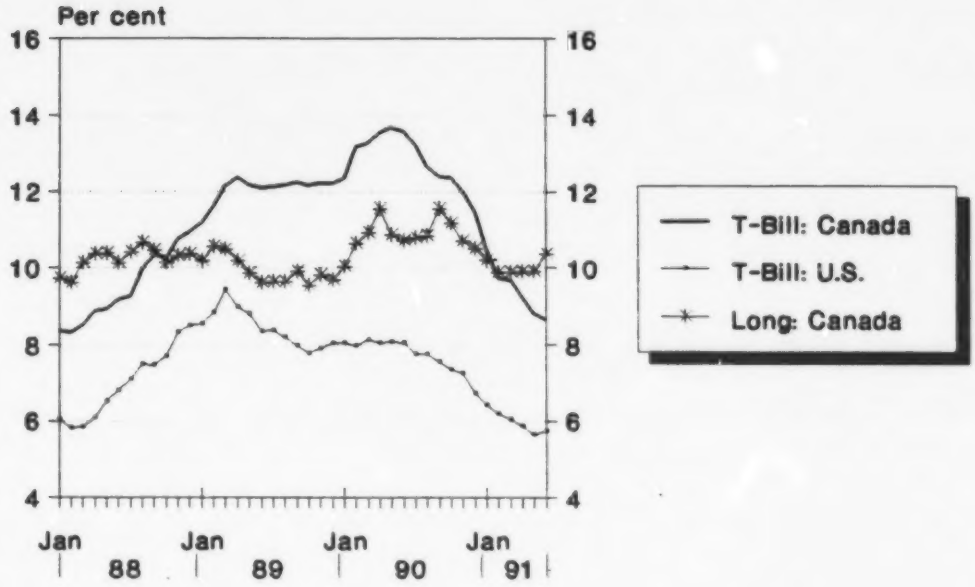
Unemployment in Canada increased sharply during the latter half of 1990 and in 1991. The unemployment rate jumped to average 8.7 per cent in the second half of 1990 after averaging 7.5 per cent in the first half, and it climbed to 10.2 per cent in the first six months of 1991. Ontario suffered the largest increase in the unemployment rate which reached 10.2 per cent in June 1991 compared to an annual rate of 5.1 per cent in 1989 prior to the recession.

The All-Item Consumer Price Index for Canada in the first six months increased by 6.4 per cent. Large increases were noted in the tobacco and alcohol, clothing, reading, recreation and education, and energy components of the Consumer Price Index. The principal factors at work were the GST, the impact of the Gulf crisis on energy costs, and tax measures.

Interest rates in both Canada and the United States have declined since July 1990 and Diagram 2 shows the run-up of interest rates in Canada starting in late 1989 and the subsequent easing in late 1990 and 1991. In Canada the interest rate on three months Treasury Bills were 9.0 per cent in June 1991 compared to the recent high of 14.1 per cent in May 1990. Long-term interest rates have not fallen as significantly as short term rates.

Diagram 2

Canada - U.S. Interest Rates
Monthly, 1988-91



In spite of these events, the Canadian dollar has generally remained at levels above 86 ¢ U.S. for the past year.

2. Prince Edward Island

The Prince Edward Island economy also went through a difficult period in the first half of 1991. Areas of strength included some rebound in housing construction, a high value of fish landings due to improved lobster prices, and increased manufacturing shipments. The weakness in the economy is particularly apparent from the decline in employment and the rise in the unemployment rate. The potato sector encountered severe difficulties with a potato virus and this contributed to a sharp decline in farm cash receipts.

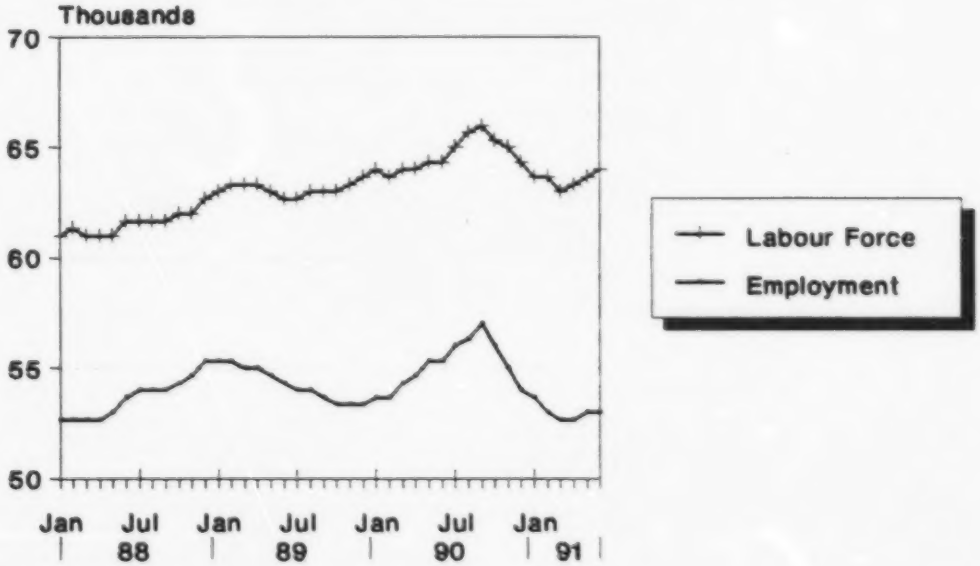
The Island's population at June 1st, 1991 was estimated by Statistics Canada to be 130,300. This figure is not the 1991 Census count. A net out-migration of 800 over the period June 1st, 1990 to May 31st, 1991 offset the natural rate of population increase so the Island's population remained unchanged from a year earlier.

(a) Labour Market

Employment levels on Prince Edward Island in 1991 have declined sharply as can be seen in Diagram 3. There has been a decline of 3.4 per cent in employment in the first half of the year compared to the same period in 1990. Employment declines have been concentrated in the trade, construction, and services sectors. This decline is having a markedly different impact on males and females as in the first six months of 1991 the employment of males declined 5.4 per cent over the corresponding period in 1990, compared to female employment which declined by only 1.4 per cent in the same time period. The size of the labour force in the first six months of 1991 also declined slightly by 0.8 per cent.

Diagram 3

Labour Force & Employment
Prince Edward Island, 1988-91

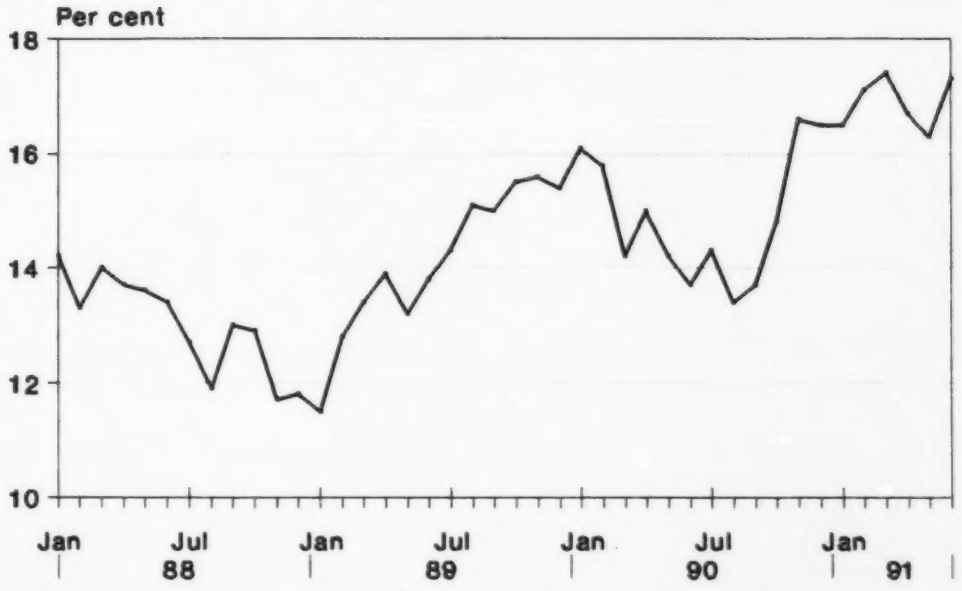


Moving Average of Seasonally Adjusted Labour Force Survey data.

Unemployment continued to be a major problem for the Island economy in the first half of 1991. The seasonally adjusted unemployment rate in the first six months of 1991 averaged 16.8 per cent, and reached a record high of 17.4 per cent in March. Diagram 4 shows the seasonally adjusted monthly unemployment rate for the period January 1988 to June 1991.

Diagram 4

Unemployment Rate
P.E.I., 1988-91



Seasonally Adjusted

(b) Consumer Prices

The All-Items Consumer Price Index for Charlottetown-Summerside increased 8.6 per cent in the first half of 1991 over the corresponding period in 1990. In the same period, the Consumer Price Index for Canada rose 6.4 per cent. The increase in consumer price inflation on Prince Edward Island to 8.6 per cent in the first half is a considerable increase compared to recent years. Annual increases in the Charlottetown-Summerside Consumer Price Index were only 5.0 per cent in 1990, 3.8 per cent in 1989, and 3.7 per cent in 1988.

The introduction of the federal Goods and Services Tax (GST), which replaced the Federal Sales Tax, contributed to the rise in consumer price inflation in 1991. A sharp increase in energy costs also contributed to the spike in inflation. Energy prices increased 22.0 per cent on Prince Edward Island in the first half of 1991 compared to the corresponding period in 1990. It was 8.5 per cent in Canada. Energy price movements due to the Gulf Crisis were delayed on Prince Edward Island by the Public Utilities Commission causing them to rise in early 1991. The tobacco and alcohol component of the Consumer Price Index increased 21.3 per

cent on Prince Edward Island for the first six months of 1991 compared to 15.8 per cent in Canada. Tax increases at both the federal and provincial level, particularly on tobacco products, was the major factor.

Table 1 shows the increase in major sub-components of the Consumer Price Index for Charlottetown-Summerside and Canada in the first half of 1991. One can observe the impact of higher energy prices, the implementation of the GST and other federal and provincial tax measures. The Charlottetown-Summerside Consumer Price index for food purchased from restaurants in the first half of 1991 was 12.8 per cent above the first half of 1990. Consumer prices for tobacco also increased sharply in 1991.

Table 1: Consumer Price Index: Charlottetown-Summerside & Canada
Percentage Change, Jan-Jun 1991 over Jan-Jun 1990

	Charlottetown/ Summerside	Canada
All Items	8.6%	6.4%
Food	7.4%	5.9%
From Stores	5.5%	3.7%
From Restaurants	12.8%	11.7%
Housing	7.7%	4.8%
Rent	1.6%	3.6%
Water, Fuel, Electricity	23.0%	12.7%
Clothing	8.9%	9.8%
Women's Wear	10.1%	9.6%
Men's Wear	7.0%	9.9%
Transportation	6.9%	3.5%
Private	6.1%	2.1%
Public	14.8%	15.5%
Health & Personal Care	8.6%	7.9%
Health Care	6.4%	5.6%
Personal Care	10.0%	9.3%
Reading, Recreation & Education	7.5%	8.2%
Reading	11.2%	15.1%
Education	6.5%	14.8%
Tobacco & Alcohol	21.3%	15.8%
Tobacco	33.2%	27.8%
Alcohol	10.4%	8.0%
Energy	22.0%	8.5%

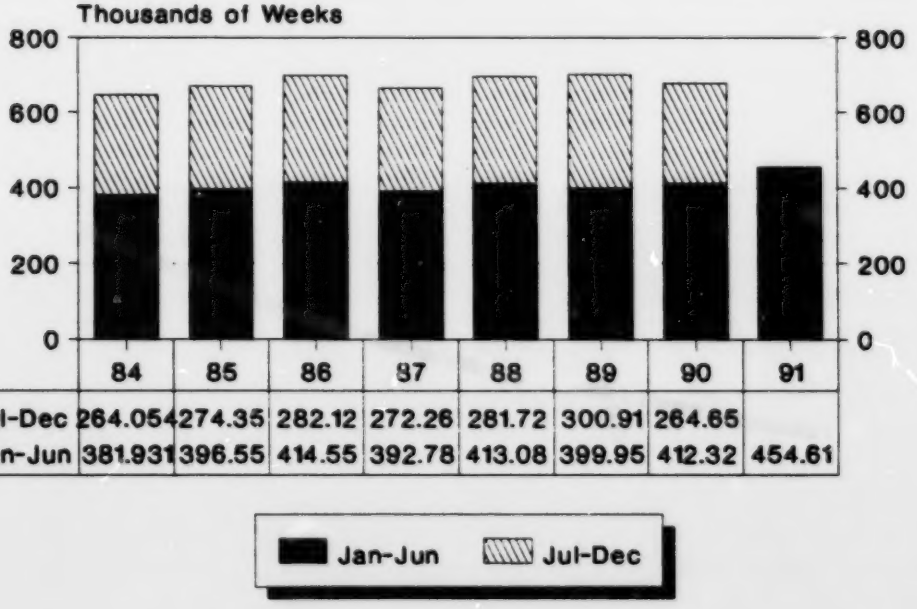
(c) Incomes

Despite the decline in employment noted earlier, Island incomes have been maintaining moderate growth. Wages and salaries, which are the largest component of personal income, over the first six months of 1991 increased by 3.4 per cent. This compares to annual increases in wages and salaries of 6.1 per cent in 1990, and 8.6 per cent in 1989. Average weekly wages (industrial composite) in the first six months of 1991 increased by 4.5 per cent over the corresponding period in 1990.

Unemployment Insurance benefits are a large component of personal income on Prince Edward Island contributing to 8 per cent of total personal income and in the first half of 1991 these amounted to $110.2 million, an increase of 15.6 per cent over the corresponding period in 1990. This consisted of an increase of 4.3 per cent in the average weekly payment, and an increase of 10.3 per cent in the total number of weeks paid. Diagram 5 shows the semi-annual number of weeks paid in Unemployment Insurance benefits. During the first half of 1991 the number of weeks paid totalled 454,610, and this is a substantial increase over the weeks paid during the first half in recent years of about 400,000.

Diagram 5

Unemployment Insurance Benefits
P.E.I., Semi-annually, 1984-91



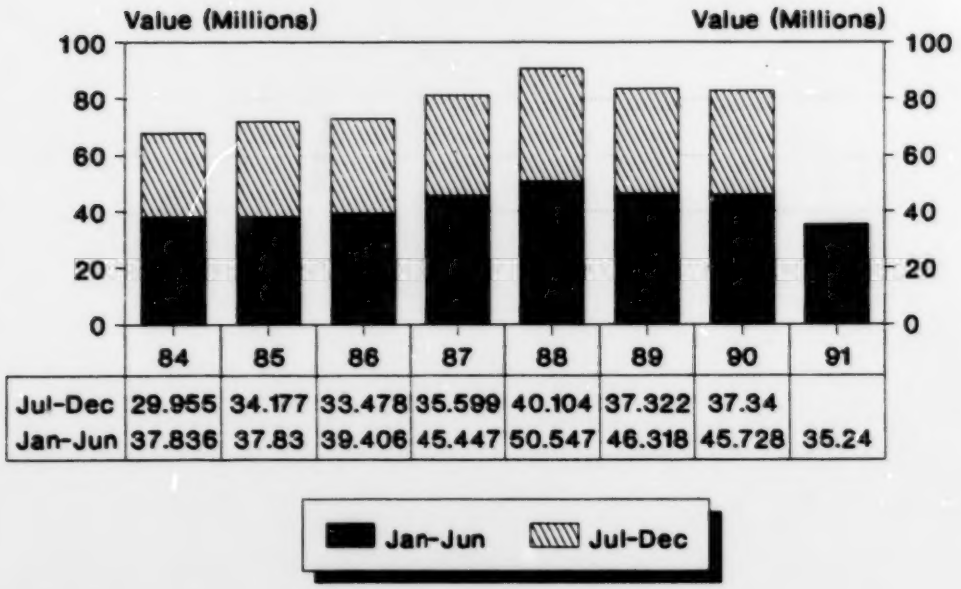
	84	85	86	87	88	89	90	91
Jul-Dec	264.05	274.35	282.12	272.26	281.72	300.91	264.65	
Jan-Jun	381.93	396.55	414.55	392.78	413.08	399.95	412.32	454.61

(d) Expenditures

The value of retail trade in current dollars on Prince Edward Island declined by 10.5 per cent in the first half of 1991 compared to the same period in 1990. Part of the recorded decline in the value of retail sales is due to the implementation of the GST. Retail sales estimates by Statistics Canada exclude the federal GST implemented in 1991, but sales data in prior years included the federal sales tax (FST) which was removed with the start of the GST. Therefore, the retail trade data in 1991 is not strictly comparable to 1990. At the Canada level, retail sales are estimated to be 4.2 per cent lower in 1991 due to the removal of the FST. The decline in Island retail sales is also in part due to a 22.9 per cent decline in the value of new motor vehicles sold in the first half of 1991. New motor vehicle sales typically comprise 10 per cent of total retail sales. Diagram 6 shows the value of sales of new motor vehicles on Prince Edward Island on a semi-annual basis.

Diagram 6

New Motor Vehicle Sales
P.E.I., Semi-annually, 1984-91



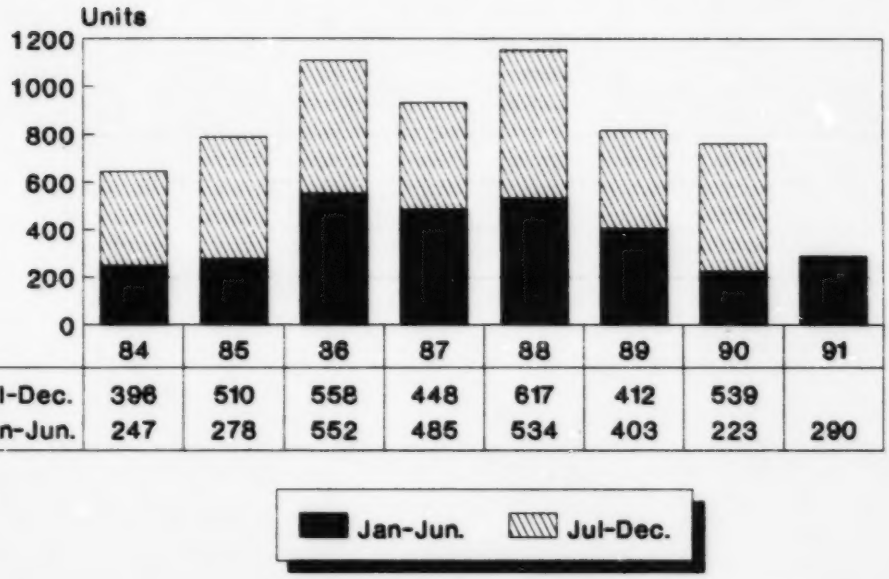
	84	85	86	87	88	89	90	91
Jul-Dec	29.955	34.177	33.478	35.599	40.104	37.322	37.34	
Jan-Jun	37.836	37.83	39.406	45.447	50.547	46.318	45.728	35.24

Investment spending on Prince Edward Island according to Statistics Canada's Private and Public Investment Survey is expected to increase by 1.5 per cent in 1991. This figure includes both construction and expenditures on machinery and equipment. Residential construction according to the survey is expected to decline 1.0 per cent to value $135.9 million in 1991. Non-residential construction is expected to increase by 7.6 per cent with large

increases in investment by institutions and government departments. Large construction projects that are expected to begin in 1991 include the Goods and Services Tax Processing Centre in Summerside, Agriculture Canada's Pathology Laboratory, school construction and renovation, hospitals in Alberton and O'Leary, and extensive highway improvements.

Diagram 7

Housing Starts
P.E.I., Semi-Annually, 1984-91



	84	85	86	87	88	89	90	91
Jul-Dec.	398	510	558	448	617	412	539	
Jan-Jun.	247	278	552	485	534	403	223	290

Housing starts on Prince Edward Island in the first half of 1991 totalled 290 units. This represents an increase of 30 per cent over the first half of 1990. This is quite different than the national situation where housing starts declined by 41.2 per cent in the first half of 1991 compared to the first half of 1990. Diagram 7 shows the semi-annual level of housing starts on Prince Edward Island over the period 1984 to the first half of 1991. One can see that the 1991 results reflect a significant improvement following 2 years of decline.

The value of international exports from Prince Edward Island declined by 15.0 per cent in the first half of 1991 to total $70 million. This was in large part caused by a decline of 17.2 per cent in the value of exports to the United States which is Prince Edward Island's largest export market. The decline in exports is partly attributable to the PVYn problem as the value of seed and table potato exports to the United States declined from $20.2 million in the first half of 1990 to $10.1 million in the corresponding period in 1990.

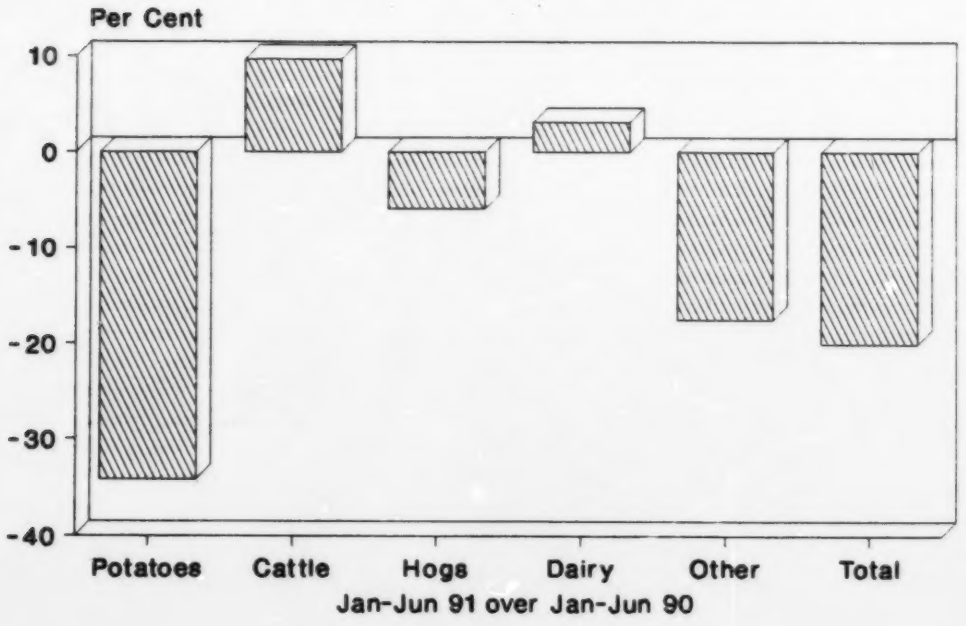
Tourist visitation to Prince Edward Island declined by 9.6 per cent for the May 15th to June 30th 1991 period. This period represents approximately 18 per cent of total annual visitation by tourist parties. The impact of the national recession and implementation of the GST, are being felt by the tourism industry on Prince Edward Island.

(e) Agriculture

The value of farm cash receipts for Prince Edward Island decreased by 20.0 per cent in the first half of 1991 due primarily to a sharp fall in the sale of potatoes. Diagram 8 shows the per cent change in the Island's farm cash receipts for the first half of 1991 compared to the same period in 1990. The sale of potatoes, which is the largest single component of Prince Edward Island farm cash receipts, declined by 34.2 per cent to total $51.2 million in the first half of 1991. A potato virus (PVYn) was found in some Island seed potatoes in the 1990 crop, and while the virus is not harmful to human consumption, it may harm other crops such as tobacco. The result has been a ban on Island seed exports to the U.S. and other parts of Canada. These difficulties account for part of the decline in the sale of potatoes and the price of potatoes generally.

Diagram 8

Per Cent Change in Farm Cash Receipts
Prince Edward Island, 1991



Statistics Canada estimates the Prince Edward Island acreage that was seeded in potatoes to be 78,000 acres in 1991, an increase of 3,000 acres from the 1990 acreage. The PVYn difficulties have meant that 4,000 acres of Island potatoes were killed down over this summer.

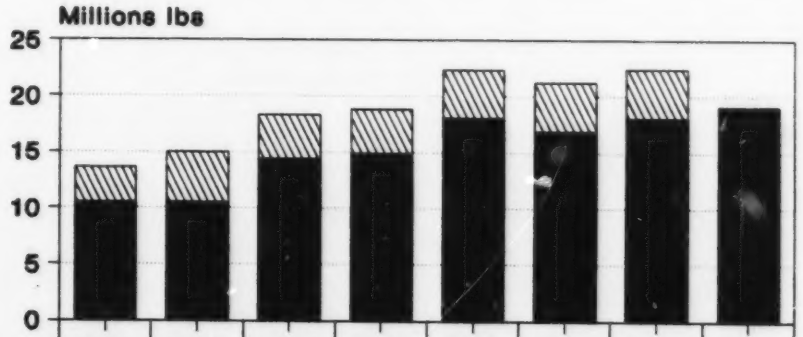
Receipts from the sale of livestock and products increased by 3.6 per cent in the first half of 1991 due to higher receipts from the sale of cattle and dairy products which offset a decline in the sale of hogs. Although there have been higher prices for hogs in the first half of 1991, hog slaughtering has been reduced. This is likely due to the province's entry into the national tripartite system for hogs. Government support payments to Island farmers in the first half of 1991 decreased by 26.5 per cent in part because of the decline in payments to hog farmers.

(f) Fishing

The Island's fishery enjoyed a good first half in 1991 as all species increased in values landed. The spring lobster fishery enjoyed a particularly good year in 1991 with the volume of landings increasing by 5.9 per cent over the spring season of 1990. The value of landings increased by 42.9 per cent over 1990 as lobster prices were substantially higher in 1991. Shellfish (other than lobster) landings had a marginal increase in value landed even though the volume declined by 10.3 per cent. Diagram 9 shows the volume of lobster landings on Prince Edward Island in the spring and fall lobster seasons.

Diagram 9

Lobster Landings
P.E.I., Semi-annually, 1984-91



	1984	1985	1986	1987	1988	1989	1990	1991
Fall Season	3.15	4.504	3.97	3.995	4.304	4.424	4.399	
Spring Season	10.486	10.514	14.358	14.873	18.068	16.828	18.053	19.115

(g) Manufacturing

The value of manufacturing shipments on Prince Edward Island for the first half of 1991 increased 2.4 per cent over the corresponding period in 1990. Large increases of over 30 per cent in shipments were recorded in the fish products industry during May and June 1991. This presumably corresponds to the high landings and prices of lobster in the spring season.

3. Summary & Conclusions

Economic recovery emerged in Canada during the second quarter of 1991 after six quarters of serious decline. Lower interest rates and a recovery in consumer confidence are expected to provide for economic growth for the remainder of 1991. Levels of production in the first half of 1991 were 2.2 per cent below those of the first half of 1990.

The Island's economy also did not fare well in the first half of 1991. Unemployment continued to be a major problem on the Island as the seasonally adjusted unemployment rate averaged 16.8 per cent in the first six months. National, regional, and local economic conditions have had a negative impact on retail trade through declines in tourism and new motor vehicle sales. Local economic conditions are also being harmed by the PVYn problem in the agricultural sector.